

**REPORT OF THE AUDIT OF THE  
RUSSELL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE RUSSELL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2009**

The Auditor of Public Accounts has completed the Russell County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$28,655 from the prior year, resulting in excess fees of \$11,394 as of December 31, 2009. Revenues decreased by \$28,507 from the prior year and expenditures increased by \$148.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Mickey Garner, Russell County Judge/Executive  
The Honorable Larry Bennett, Russell County Sheriff  
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Russell County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2010 on our consideration of the Russell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Mickey Garner, Russell County Judge/Executive  
The Honorable Larry Bennett, Russell County Sheriff  
Members of the Russell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Russell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 8, 2010



RUSSELL COUNTY  
LARRY BENNETT, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants:

U.S. Corp. of Engineers	\$	11,997
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State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		31,975
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State Fees For Services:

Finance and Administration Cabinet	\$ 10,868	
Sheriff Security Services	11,311	
Transporting Mental Patients	12,751	34,930

Circuit Court Clerk		18,183
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Fiscal Court		111,430
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County Clerk - Delinquent Taxes		1,480
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Commission On Taxes Collected		353,144
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Fees Collected For Services:

Auto Inspections	4,660	
Accident and Police Reports	87	
Serving Papers	37,890	
Carrying Concealed Deadly Weapon Permits	4,580	
10% Add-on Fees	17,990	
Tax Advertising Fees	3,850	69,057

Other:

Miscellaneous		2,051
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Interest Earned		1,215
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Borrowed Money:

State Advancement	150,000	
Bank Note	32,000	182,000

Total Revenues		817,462
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The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY  
 LARRY BENNETT, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	315,730	
Part Time Gross Salaries		9,365	
Other Gross Salaries		34,522	
Overtime Gross Salaries		8,199	
Contract Labor		2,319	
Employee Benefits-			
Employer's Share Retirement - KLEFPF		3,638	
Employer Paid Health Insurance		38,693	
Contracted Services			
Advertising		744	
Materials and Supplies-			
Office Materials and Supplies		11,088	
Uniforms		5,285	
Auto Expense-			
Maintenance and Repairs		51,681	
Other Charges-			
Conventions and Travel		3,055	
Dues		1,125	
Postage		923	
Guns and Ammo		1,835	
Transporting		3,405	
Miscellaneous		3,708	
Reimbursement		2,686	
Capital Outlay-			
Vehicles		22,748	
Vehicle Lease Payments		24,855	
		<u>24,855</u>	\$ 545,604

Debt Service:

State Advancement	150,000	
Bank Note	32,000	
Bank Note Interest	847	182,847
	<u>847</u>	<u>182,847</u>

Total Expenditures		\$	<u>728,451</u>
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The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY  
 LARRY BENNETT, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Net Revenues		\$	89,011
Less: Statutory Maximum			<u>74,088</u>
Excess Fees			14,923
Less: Training Incentive Benefit			<u>3,529</u>
Excess Fees Due County for 2009			11,394
Payments to Fiscal Court - December 31, 2009	\$	11,300	
April 29, 2010		<u>94</u>	<u>11,394</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Russell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Russell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 4. Miscellaneous Drug Account

Under the terms mandated by the Commonwealth of Kentucky, the Russell County Sheriff receives proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are used exclusively for operating expenditures incurred for law enforcement activities against drug related activities are not included in excess fees. As of January 1, 2009 the account had a balance of \$2,135. Receipts and expenditures for 2009 were \$28,143 and \$5,467 respectively, leaving a balance of \$24,811 as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Mickey Garner, Russell County Judge/Executive  
The Honorable Larry Bennett, Russell County Sheriff  
Members of the Russell County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Russell County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated July 8, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Russell County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Russell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 8, 2010

COMMENT AND RECOMMENDATION



RUSSELL COUNTY  
LARRY BENNETT, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

Segregation of duties over receipts and the reconciliation process or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and reconciliation process in the Sheriff's office because a limited number of employees are available to properly segregate these job duties.

Two office employees rotate preparation of the daily checkout sheet and the daily deposit. However, the bookkeeper does all posting to the receipts ledger. Per the bookkeeper, the Sheriff occasionally recounts the daily deposit and reviews the daily checkout sheet. Per the auditor's observation, the Sheriff's review is undocumented.

In addition, the bookkeeper prepares the monthly bank reconciliation, as well as posts to the receipt and disbursement ledgers. The bookkeeper also performs the comparison of the daily, monthly, and quarterly reports to the ledgers. It was noted that no other individual reviews the monthly bank reconciliation.

To adequately protect employees in the normal course of performing their duties and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the Sheriff delegate the receipt and reconciliation process to other employees. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide this oversight by initialing source documents as evidence of review.

*Sheriff's Response: None.*

